Canadian Interurban Properties Limited

Annual Report 1968

Directors

W. Howard Wert, C.A.
Chairman of the Board,
Canadian Interurban Properties Limited
President, Warnock Hersey International Ltd.

J. A. Lowden
President, Canadian Interurban Properties Limited

P. N. Thomson
Vice-President, Canadian Interurban Properties Limited
Deputy Chairman, Power Corporation of Canada, Limited

William Teron
Vice-President, Canadian Interurban Properties Limited

Hon. John B. Aird, Q.C.
Partner, Messrs. Edison, Aird & Berlis

P. G. Desmarais
Chairman and Chief Executive Officer,
Power Corporation of Canada, Limited

A. F. Mayne
President, A. F. Mayne & Associates Limited

Jean Parisien
Executive Vice-President,
Power Corporation of Canada, Limited

Jean Simard
Vice-President, Marine Industries Limited

W. I. M. Turner, Jr.
President, Power Corporation of Canada, Limited

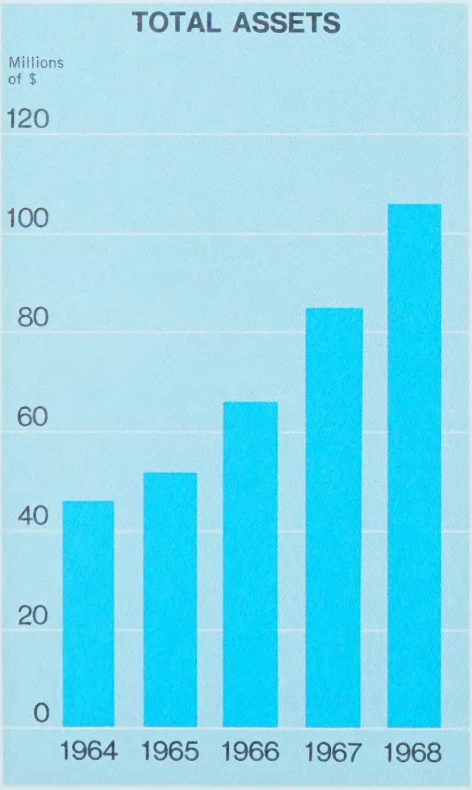
Officers

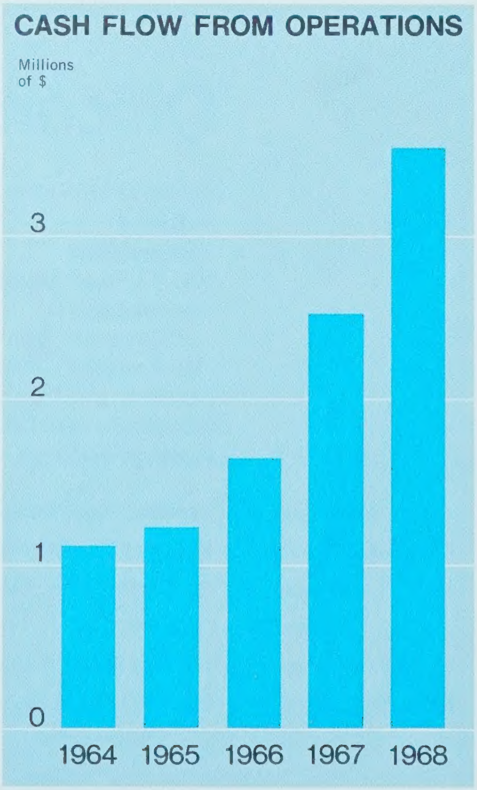
Chairman of the Board	W. Howard Wert, C.A.
President	J. A. Lowden
Vice-President	P. N. Thomson
Vice-President and General Manager	P. A. Saunderson
Vice-President, Planning and Development	W. Teron
Vice-President, Finance	J. B. Whitely
Secretary and Treasurer	W. G. E. Lannaman
Comptroller and Assistant Secretary	H. E. McDonald
Assistant Secretary	T. J. Rappell

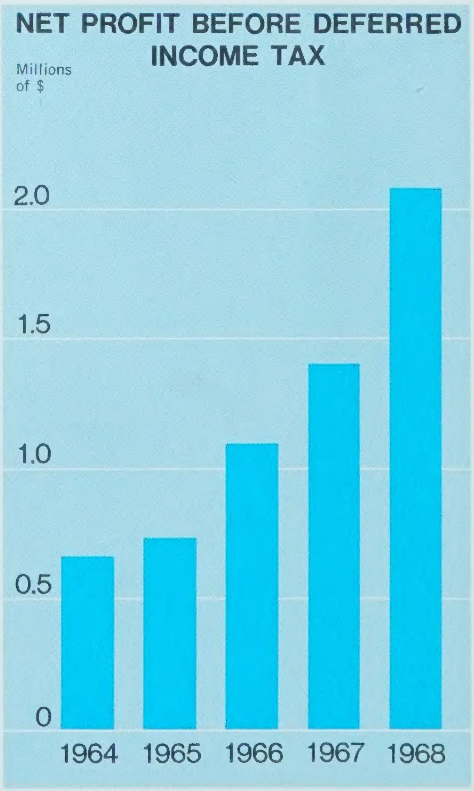
Registrar	Montreal Trust Company
Transfer Agent	Montreal Trust Company
Auditors	Campbell, Sharp, Nash & Field
Counsel	Fraser & Beatty
Head Office	170 Bay Street, Toronto 1, Ontario
Executive Office	One Place Ville Marie, Montreal 113, Quebec

Financial Highlights

	1968	1967
Total assets	$106,327,751	$85,405,733
Long term debt	57,195,038	46,822,686
Bank loans	3,022,009	7,332,729
Share capital	30,890,738	19,646,393
Equity per Common Share	5.26	4.97
Cash flow from operations	3,548,062	2,521,998
Net profit before deferred income tax	2,092,143	1,437,259
Net profit after deferred income tax	1,121,143	812,259
Surplus on disposal of properties and other investments	843,935	322,028
Cash flow per Common Share from operations	.62	.51
Net profit per Common Share before deferred income tax	.35	.29
Net profit per Common Share after deferred income tax	.17	.16
Common Shares outstanding	5,372,700	4,903,000
Number of Common Shareholders	3,644	1,769
Preference Shares outstanding	800,000	—
Number of Preference Shareholders	1,853	—







Directors' Report to Shareholders

In the year under review the Company experienced a highly satisfactory growth in assets and earnings. A major public underwriting of its shares was well received in the financial markets. It further diversified its holdings by the acquisition of large land acreages suitable for residential development.

Net profit before deferred income tax was $2,092,143, an increase of 46% over the previous year. Net profit after deferred income tax was $1,121,143, a 38% increase. At the year-end the Company had set aside $2,929,000 as a reserve for deferred income tax.

After providing for preference dividends and taking into account an increase in the number of outstanding Common Shares from 4,903,000 to 5,372,700 net profit per Common Share before deferred income tax increased from 29¢ to 35¢ and after deferred income tax from 16¢ to 17¢.

In addition to retained earnings, common shareholders benefitted from a surplus on disposal of properties and other investments of $843,935. These factors, together with the proceeds of the equity financing, led to an increase in shareholders' equity of $11.9 million to a level of $36.3 million.

Cash flow from operations amounted to $3,548,062, an increase of 41% over the previous year. After preference dividends, cash flow per Common Share was 62¢ compared to 51¢ in 1967.

Total assets reached $106.3 million, an increase of $20.9 million and long term debt increased by $10.4 million.

Early in the year it was recognized that the Company should broaden its equity base in line with its policy of expansion. A public issue was considered most suitable since the Company wished to add to its list of shareholders and become better known to the investing public. The financing was successfully completed in August through a group of Canadian investment dealers. It consisted of 800,000 7% Cumulative Redeemable Convertible Preference Shares with a par value of $10 each and 400,000 Common Shares without par value. Net proceeds amounted to approximately $10.5 million. The new Preference Shares contain certain restrictions as to the payment of Common Share dividends and as a result, the Company was restricted from paying further Common Share dividends subsequent to the financing. Prior to that time dividends totalling $294,180, equivalent to 6¢ per Common Share, were paid out. Preference dividends of $222,803 were paid out during the year.

The Company gained many new shareholders from the equity financing. As a result of the broader distribution, a listing was obtained for the Common Shares and Preference Shares on the Toronto Stock Exchange in addition to the existing listing on the Montreal Stock Exchange.

At the last Annual Meeting membership of the Board of Directors was increased from nine to ten and Mr. Paul Desmarais was elected a new Director. Later in the year Mr. Jean Parisien was appointed a Director.

The Company continued to improve the efficiency with which it managed its investment portfolio. Rental income of most properties increased and the vacancy factor did not exceed 3% of gross rental income. During the year the management was strengthened by the addition of a Financial Vice-President and a new Quebec regional office was opened in Montreal. An outstanding effort by the entire staff enabled the Company to complete the most extensive residential and commercial program in the Company's history.

Looking ahead, the Company will continue to pursue a policy of growth, aimed at improving earnings for its shareholders. In the next year this will involve an emphasis on residential development due to the strong demand in this particular sector of the real estate industry.

March 20, 1969 — Chairman, W. Howard Wert — President, J. A. Lowden

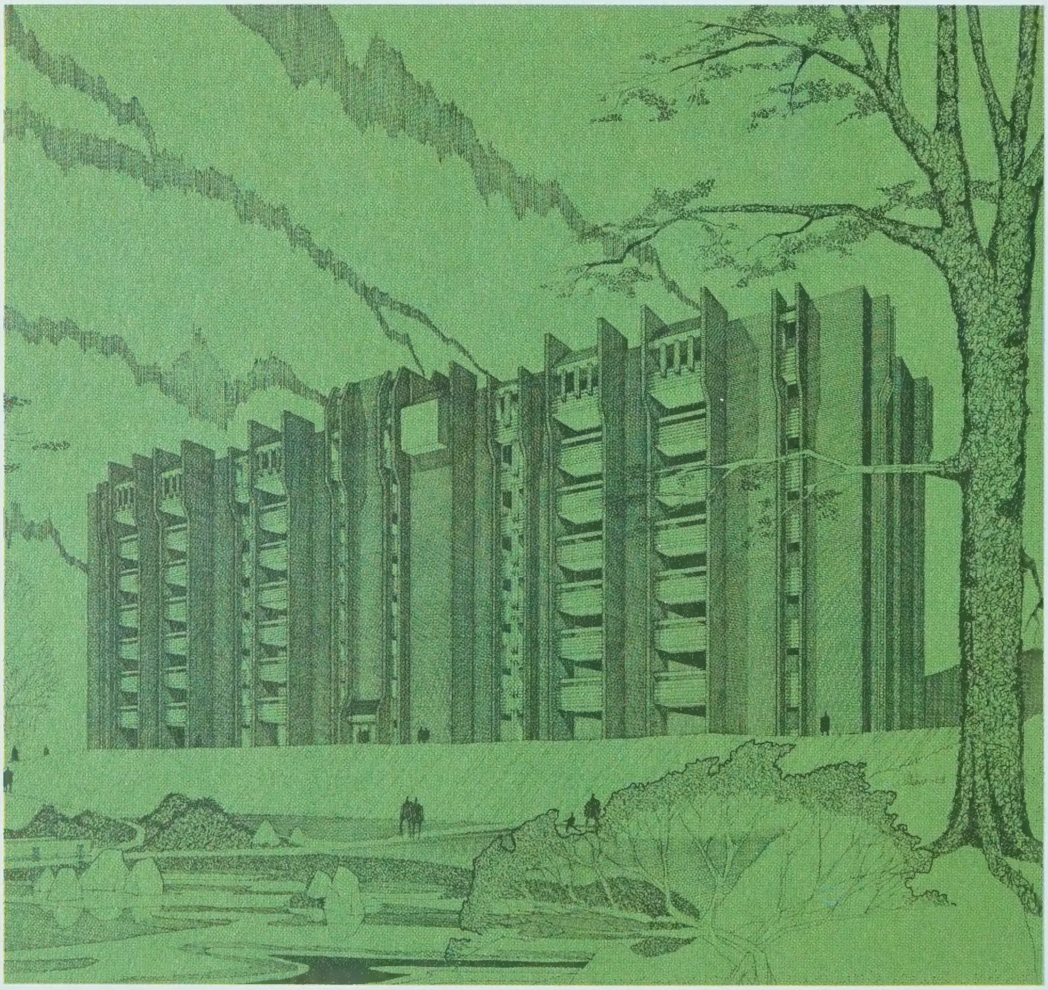
Review of Operations

Residential Development

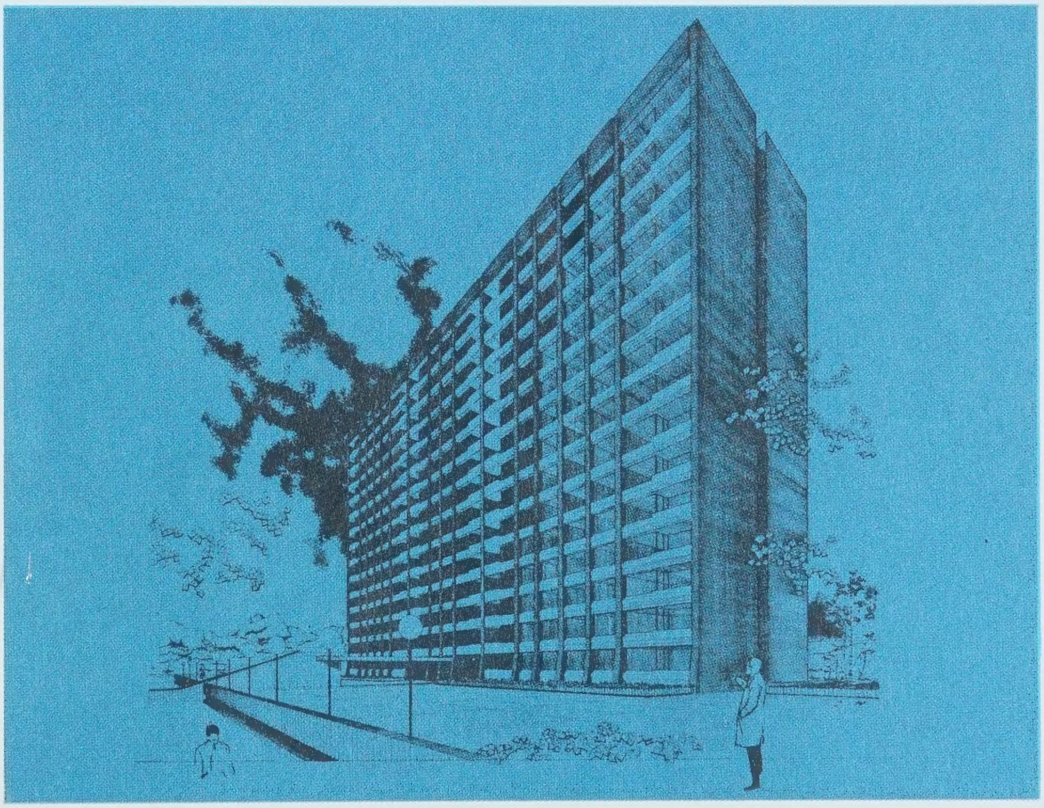
KANATA:

The Company is pleased with the progress achieved in the development of its new town on the western outskirts of Ottawa. During 1968 two hundred single family houses were built and sold, fifty-two town houses were completed and leased, and construction was well advanced on an eight-storey apartment building, Kanata's first high-rise structure. In addition, the clubhouse and the first nine holes of the golf course were completed as well as the riding stables and trails. By the year-end Kanata's population had grown to over 4,000.

Market conditions continue to be highly favourable and the Company is planning an expanded program for 1969. During 1969 special emphasis will be placed on attracting industries to locate in Technology Park, Kanata's 200-acre research and development area.



GLENMORE LAKE: The Company completed the purchase of a two-thirds interest in 27.2 acres of land on the shores of Glenmore Lake in southwest Calgary. Plans call for 1,200 rental units in seven high-rise apartment buildings together with a 40,000 square foot shopping centre. The overall plan for the development has been completed and approved by the municipality and the Company expects to start construction of the first building this Spring.



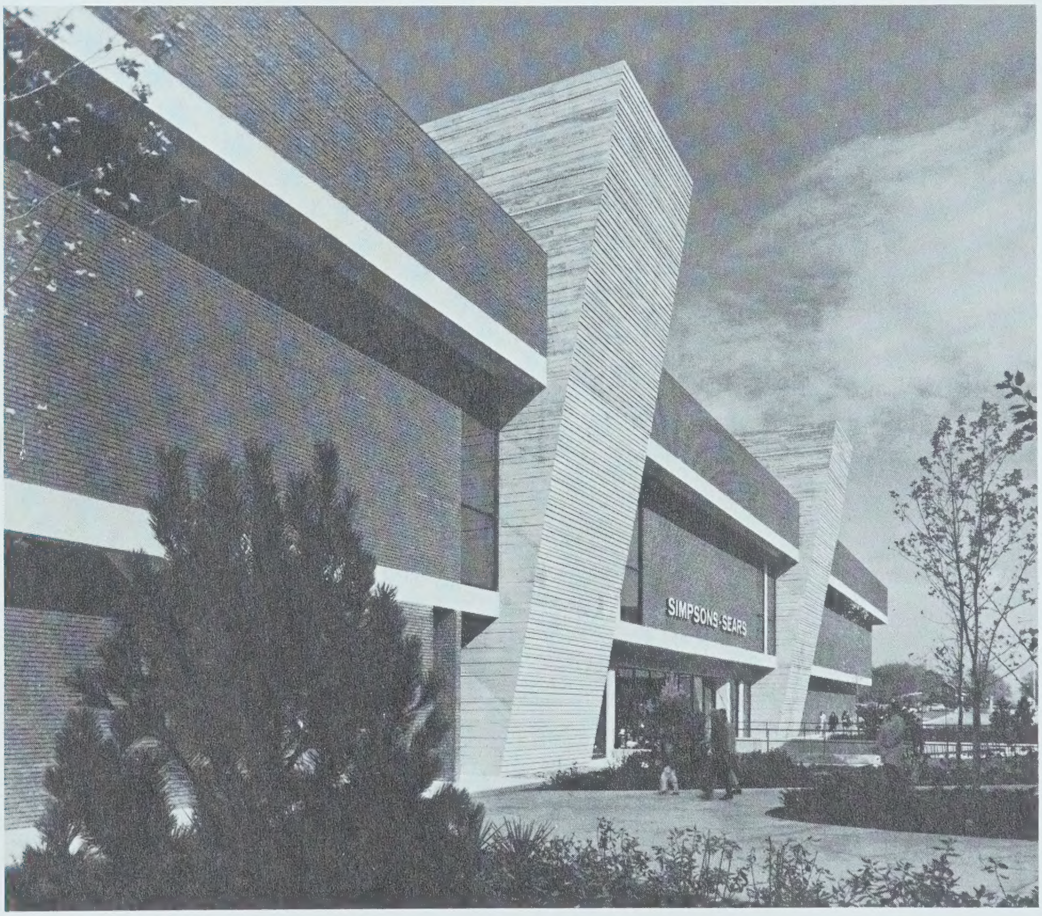
MOUNT BRUNO: Also completed was the purchase of about 866 acres of land and lakes located in the upper portion of Mount Bruno, Quebec. This property is within a twenty-minute drive from central Montreal via limited access highways. Preliminary land use studies suggest the development of between 3,500 and 4,000 residential units with the emphasis on multi-family structures. The overall development would include a shopping centre, a community centre and schools to meet the requirements of the residents.

COTE DES NEIGES APARTMENTS: Having completed the commercial phase of its Cote des Neiges development, the Company is now planning the residential portion which will consist of more than 500 apartment units.

Commercial Development

COTE DES NEIGES PLAZA: Construction was completed on this commercial complex located on 13.5 acres of leased land on Cote des Neiges Road in Montreal. The trading area for this complex has one of the highest residential densities in Canada with up to eighty families to the acre in the immediate vicinity. It comprises 415,000 square feet of gross leasable area, consisting of a 347,000 square foot two-level enclosed mall shopping centre, a six-storey office building, a twin 1,100-seat theatre, and multi-level parking for 900 cars. The retail sector opened for business in October and is 97% leased. The office building and theatre opened in the latter part of December. Cote des Neiges Plaza becomes one of the Company's major holdings and the results to date are most encouraging.

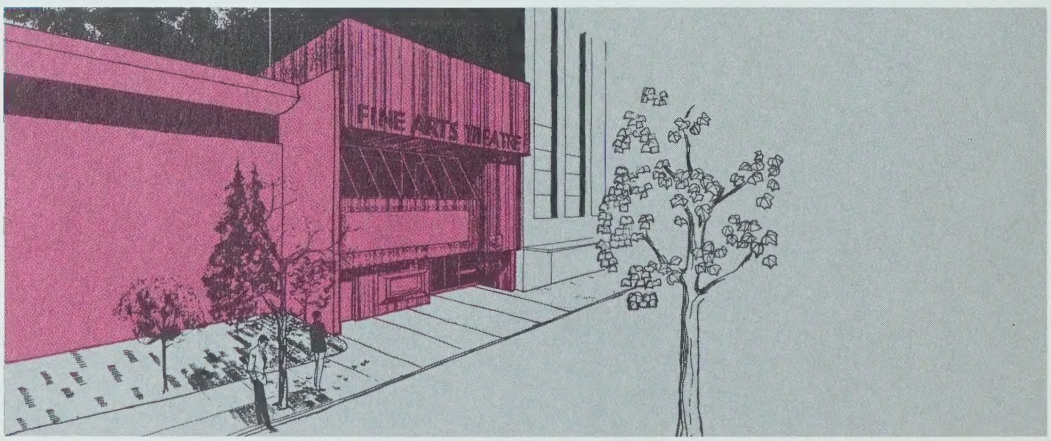
OSHAWA: The Company has a policy of continuously examining its many properties across Canada with a view to possible improvement and expansion. In the case of the Oshawa Shopping Centre, it became evident that a second major department store should be added to fill out the merchandising needs of the centre. The result was the completion in August of a 127,000 square foot Simpson-Sears Department Store. It was an immediate success and the whole centre has derived benefits from the addition. The Company also completed an expansion to the T. Eaton Company Department Store, which has been located in the centre since its inception. The next step in Oshawa will be the enclosure of the mall, which the Company expects to start in 1969.



SANDRA COFFEE PLANT: Construction was completed on a major addition to this commercial plant in Cooksville, Ontario. A new net lease was entered into with Sandra Instant Coffee Company Limited for a period of twenty-five years.

PLACE DU SAGUENAY: October saw the opening of this enclosed mall regional shopping centre located on 13.3 acres of land in Chicoutimi. Developed by a subsidiary in which the Company has a 75% interest, it contains 204,000 square feet of gross leasable area integrated with an 80,000 square foot Simpson-Sears Department Store owned by other interests. Chicoutimi is the centre of the Lake St. Jean region, an economically dynamic area known as the "Kingdom of the Saguenay". The centre draws customers from this entire region whose population is approximately 170,000. Since the opening, operating results have been favourable and the Company expects this development to be very profitable.

VANCOUVER THEATRE: Construction was completed on a 500-seat theatre in Vancouver. It was leased for twenty-five years on a net basis to NGC Cinemas Ltd. This is an addition to the Company's Rayonier Building and opened in February, 1969.



Consolidated Financial Statements

December 31, 1968

Consolidated Balance Sheet As at December 31, 1968

ASSETS

		Comparative 1967
REAL ESTATE		
Properties held for investment — at cost	**$ 90,235,465**	$74,244,193
Less: Accumulated depreciation	**5,615,286**	4,854,198
	84,620,179	69,389,995
Land acquired for development (note 2)	**12,630,192**	9,240,824
	97,250,371	78,630,819
OTHER		
Shares of affiliated companies — at cost	—	566,850
Mortgages, notes receivable and advances	**1,978,351**	1,727,268
Advances, less repayments, under employees' stock purchase plan (note 3)	**444,151**	—
	2,422,502	2,294,118
CURRENT		
Properties developed for sale — at cost	**1,555,655**	2,830,473
Prepaid expenses	**201,644**	185,546
Guarantee deposit re property under construction	**1,881,356**	—
Accounts receivable less allowance for doubtful accounts	**2,754,936**	1,320,025
Cash	**261,287**	144,752
	6,654,878	4,480,796
	$106,327,751	$85,405,733

Approved on behalf of the Board — Director, W. Howard Wert — Director, J. A. Lowden

Auditors' Report

To the Shareholders of Canadian Interurban Properties Limited.

We have examined the consolidated balance sheet of Canadian Interurban Properties Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of profit and loss, surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

SHAREHOLDERS' EQUITY

		Comparative 1967
CAPITAL STOCK (note 4)		
Preference Shares	$ 8,000,000	—
Common Shares	22,890,738	$19,646,393
SURPLUS	5,383,042	4,703,716
	36,273,780	24,350,109

LIABILITIES

LONG TERM INDEBTEDNESS (note 5)	57,195,038	46,822,686
DEFERRED INCOME TAXES (note 6)	2,929,000	1,685,000
MINORITY INTERESTS IN SUBSIDIARIES	69,514	67,797
CURRENT		
Bank loans	3,022,009	7,332,729
Mortgage advances — properties developed for sale	1,309,696	1,408,307
Accounts payable — construction	3,461,172	2,124,326
Accounts payable — operations	2,067,542	1,614,779
	9,860,419	12,480,141
	$106,327,751	$85,405,733

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 4, 1969.

CAMPBELL, SHARP, NASH & FIELD
Chartered Accountants

Consolidated Statement of Surplus

For the year ended December 31, 1968

		Comparative 1967
SURPLUS, beginning of year	**$4,703,716**	$4,108,759
SURPLUS on disposal of investments and properties held for investment	**843,935**	322,028
NET PROFIT for the year	**1,121,143**	812,259
	6,668,794	5,243,046
DIVIDENDS PAID — Preference Shares	**222,803**	—
— Common Shares	**294,180**	539,330
EXPENSES of share issue	**489,769**	—
ADJUSTMENT of prior years' deferred income taxes (note 6)	**279,000**	—
	1,285,752	539,330
SURPLUS, end of year	**$5,383,042**	$4,703,716

Consolidated Statement of Profit and Loss

For the year ended December 31, 1968

		Comparative 1967
INCOME		
Rentals	**$10,356,299**	$9,119,146
Interest, dividends and sundry	**373,719**	402,523
Sale of land and buildings developed for sale	**6,215,118**	3,899,867
Less: Cost thereof	**5,389,543**	3,529,219
	825,575	370,648
Total income	**11,555,593**	9,892,317
EXPENSES		
Property operating expenses	**3,986,948**	3,421,301
Administrative and general	**977,363**	840,083
Interest expense	**3,318,388**	3,060,775
Leasehold rental (note 8)	**381,299**	358,428
Provision for depreciation (note 7)	**795,589**	725,619
	9,459,587	8,406,206
NET PROFIT before deferred income taxes and minority interests	**2,096,006**	1,486,111
Deferred income taxes (note 6)	**971,000**	625,000
	1,125,006	861,111
Minority interests	**3,863**	48,852
NET PROFIT for the year	**$ 1,121,143**	$ 812,259

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1968

		Comparative 1967
FUNDS AVAILABLE FROM OPERATIONS		
Net profit for the year	**$ 1,121,143**	$ 812,259
Depreciation	**795,589**	725,619
Amortization of cost of land and development expense	**660,330**	359,120
Deferred income tax	**971,000**	625,000
Cash flow from operations	**3,548,062**	2,521,998
Repayment of current portion of long term indebtedness	**1,665,388**	1,314,172
	1,882,674	1,207,826
Dividends paid	**516,983**	539,330
Funds available from operations for reinvestment	**1,365,691**	668,496
FUNDS DERIVED FROM DISPOSAL OF INVESTMENTS		
Proceeds from disposal of investments in affiliated companies	**1,223,556**	509,825
Net proceeds from disposal of land and buildings	**1,619,358**	353,031
Payment of notes and mortgages receivable	**404,660**	—
	4,613,265	1,531,352
FUNDS DERIVED FROM NEW FINANCING		
Capital stock issued	**11,244,345**	3,000,000
Increase in minority interests in subsidiary companies	**1,717**	48,852
Net increase in long term indebtedness	**13,686,876**	16,233,757
Net decrease in current debt, including interim bank financing	**(4,793,804)**	(3,312,388)
	$24,752,399	$17,501,573
APPLICATION OF FUNDS		
Increased investment in:		
Properties held for investment	**$18,456,332**	$ 7,121,575
Land acquired for development	**4,049,698**	9,599,944
Mortgages, notes receivable and advances	**1,312,449**	780,054
Advances, less repayments, under employees' stock purchase plan	**444,151**	—
Expenses of share issue	**489,769**	—
	$24,752,399	$17,501,573

Notes to Consolidated Financial Statements December 31, 1968

1. PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Canadian Interurban Properties Limited and of all its subsidiaries.

2. LAND ACQUIRED FOR DEVELOPMENT: Land acquired for development includes $3,321,650 representing the excess of the amount paid in 1967 for all of the outstanding shares of William Teron Limited over the book value of the underlying assets. The land acquired for development is otherwise carried at cost including carrying charges and development expenses.

3. EMPLOYEES' STOCK PURCHASE PLAN: On January 11, 1968 the Company created a plan under which the Company advanced money to trustees to purchase 64,000 Common Shares of the Company, to be made available for acquisition by certain employees, including senior officers, at the market price prevailing on the date such employees agreed to acquire such shares and payable in annual instalments during the next four to nine years. The plan was amended on April 30, 1968 to permit the trustees to purchase an additional 86,000 Common Shares.

During 1968 the trustees purchased 64,000 Common Shares in the market which were sold to employees at $3.15 per share and 69,700 Common Shares from the treasury of the Company which were sold to employees at $3.85 per share. Provision remains for 16,300 shares to be made available to employees in the future.

4. CAPITAL STOCK:

Authorized

1,500,000 Preference Shares with a par value of $10 each, issuable in series

12,000,000 Common Shares without par value

Issued and outstanding	
800,000 7% Cumulative, Redeemable, Convertible Preference Shares Series A	$ 8,000,000
5,372,700 Common Shares	22,890,738
	$30,890,738

800,000 Preference Shares Series A and 400,000 Common Shares were issued during the year for an aggregate cash consideration of $10,976,000. A further 69,700 Common Shares were issued pursuant to the terms of the Employees' Stock Purchase Plan for an aggregate consideration of $268,345 (note 3).

In 1967, the Company granted an option on 25,000 Common Shares at $4 per share exercisable on or before December 31, 1971 and issued Share Purchase Warrants entitling the holders thereof to subscribe for 125,000 Common Shares at $4 per share on or before December 31, 1971.

The 7% Cumulative, Redeemable, Convertible Preference Shares Series A are convertible into Common Shares on the basis of 1½ Common Shares for each such Preference Share held.

The conditions attaching to the 7% Cumulative, Redeemable, Convertible Preference Shares Series A include certain restrictions on the declaration or payment of dividends on the Common Shares.

5. LONG TERM INDEBTEDNESS:

	Total Principal	Instalments And Principal Balances Due Within One Year
Mortgages bearing interest at various rates from 4½% to 10% and maturing as follows:		
Due within one year	$ 110,462	$ 110,462
2 to 5 years	3,929,479	77,050
6 to 10 years	11,744,933	377,427
over 10 years	30,200,784	567,249
	45,985,658	1,132,188

First mortgage bonds		
5¼% Series A due 1976	96,000	12,000
5½% Series B due 1978	330,000	23,000
5½% Series C due 1975	130,000	20,000
7½% Sinking Fund due 1992	2,955,000	47,000
7½% Sinking Fund due 1997	5,700,000	—
	9,211,000	102,000
Debentures and notes		
4½% Subordinated Debentures due 1976	900,000	—
6% Notes due to 1974	1,098,380	114,000
	1,998,380	114,000
	$57,195,038	$1,348,188

6. INCOME TAX: By claiming depreciation and amortization for income tax purposes in excess of that recorded in the accounts, income taxes of $971,000 ($625,000 in 1967) otherwise currently payable are deferred to future years. At December 31, 1968 the Company had set aside $2,929,000 as a reserve for deferred income tax. Taxable income is further reduced by deducting carrying charges applicable to land held for inclusion in future property investment programs.

The Company was re-assessed in 1968 in respect of federal income taxes up to and including December 31, 1965. Under such re-assessment the Taxation Division contends that certain properties were acquired in 1958 by the Company in a non arms-length transaction and that the values thereof for capital cost allowances are approximately $6,000,000 less than the values recorded in the accounts of the Company. Although the income tax liability involved to December 31, 1968 is less than $1,000 the Company has objected to the re-assessment in order to establish maximum capital cost values for future income tax purposes.

Under the re-assessment referred to above the Taxation Division has disallowed the deduction of debenture interest charged to income in 1962 and 1963 in an aggregate amount of $536,250, the payment of which was waived in 1964 but the Taxation Division has permitted the Company to claim sufficient additional capital cost allowances to offset this disallowance. Deferred income taxes have been adjusted accordingly by charge to surplus in 1968.

7. DEPRECIATION: The provision for depreciation is calculated on a sinking fund method based on the estimated useful life of each developed property and writes off the value of the improvements over that period in a series of instalments increasing at the rate of 5% compounded annually.

8. LEASEHOLD RENTAL: The Company is committed as tenant under leases on income producing properties varying in length from 9 to 37 years. All major leases contain options to either renew the lease or purchase the property at the expiration of the existing term. The total minimum rental obligation under such leases aggregates $13,800,000 and is payable in approximate annual amounts as follows:

Years		Years	
1969 — 1970	$510,000	1987 — 1995	$250,000
1971 — 1976	540,000	1996 — 2004	270,000
1977 — 1985	475,000	2005	187,500
1986	400,000		

9. REMUNERATION OF DIRECTORS AND OFFICERS: The aggregate remuneration paid to directors and senior officers of the Company (as defined in the Ontario Corporation Act) amounted to $156,000 for the year ended December 31, 1968.

Five Year Financial Record

$110 m April/69.

	1968	1967	1966	1965	1964
Total assets	**$106,327,751**	$85,405,733	$66,815,145	$52,815,217	$46,166,788
Cash flow from operations	**3,548,062**	2,521,998	1,656,937	1,213,902	1,101,924
Net profit before deferred income tax	**2,092,143**	1,437,259	1,117,468	744,841	660,967
Net profit after deferred income tax	**1,121,143**	812,259	537,468	544,841*	585,967*
Surplus on disposal of properties and other investments	**843,935**	322,028	1,325,390	449,030	—
Cash flow per Common Share from operations	**.62**	.51	.40	.29	.27
Net profit per Common Share before deferred income tax	**.35**	.29	.27	.18	.16
Net profit per Common Share after deferred income tax	**.17**	.16	.13	.13	.14
Common Shares outstanding	**5,372,700**	4,903,000	4,153,000	4,153,000	4,153,000

(total of 3.3-m over 9 yr period) does not appear in St./dir. into surplus

*These figures reflect the benefit of reduced income taxes resulting from losses carried forward from prior years.

last yr 1968
$10-m/yr

this yr 1969
$15-20 m/yr

3,000 acres

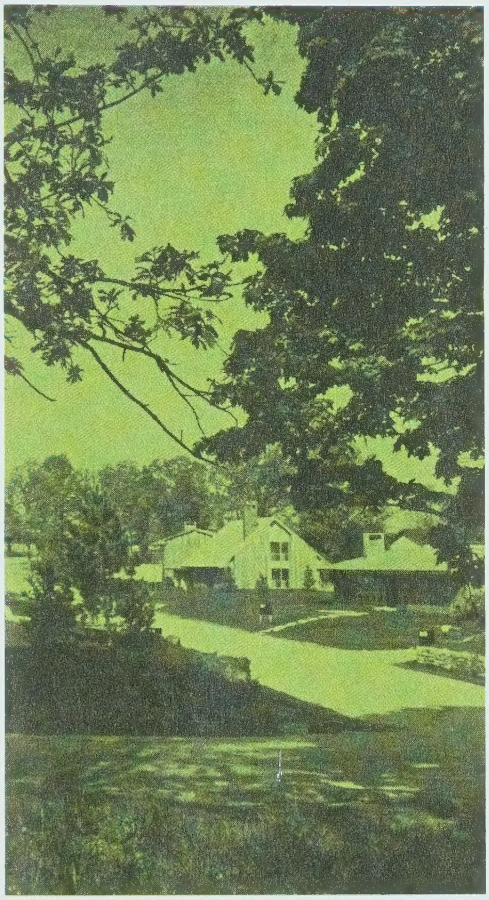
KANATA a planned town

Kanata's total town planning concept offers a wide range of activities with ample green and open space. Natural landscape is preserved to the greatest extent possible, providing for human temperament and aspiration, change, contrast, adventure and above all an environment responsive to one's personal aims.

In July of last year the Federal Government established a Task Force to examine housing and urban development in Canada. The Company was pleased to have the Task Force visit Kanata and was encouraged when Kanata was singled out in the Task Force Report as an outstanding example of effective urban planning. The Report points out that effective planning depends on large scale land assembly, something rarely found in Canada. "A development of 300 to 500 acres is unusual; one of 3,000 such as Kanata, near Ottawa, is almost unique." The Report goes on to point out that Kanata was possible only because the "development company acquired land on a scale which, in most instances, could be accomplished only by government".

". . . Kanata, a breath of planned air amid the unreasoned sprawl of urbanization"

Report of the Federal Task Force
on Housing and Urban Development.
January 22, 1969.



1968 was the most successful year in the development of Kanata. The population increased from 2,214 to 4,030. The town now contains 600 single family dwellings, 232 town houses, an 85-suite apartment building, three elementary schools, a community centre, a shopping centre and two industrial plants. The amenities include a golf course, swimming pool, tennis courts and riding stables.

Canada's Housing Needs

A Challenge for Private Developers

An unprecedented challenge exists in Canada today for private developers to construct additional housing units to meet the requirements of a growing population. It is not only a matter of quantity but also one of quality. New dwellings must be designed to meet the needs of the occupants; they must exist in an environment responsive to the attitudes of the people living there; and they must be available at a reasonable price.

We at Canadian Interurban believe we are helping meet this challenge. We are assembling large land acreages suitable for new communities. Aware of the need for effective planning, we are building new communities on the basis of long range programs. We are designing dwelling units with people in mind and, through the efficiencies of large scale production, are offering them at a price the public can afford.

Kanata is well advanced in its development. Mount Bruno and Glenmore Lake will commence construction in the near future. Others will follow in the years ahead.